



PEEHIP

Quarterly



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PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE PLAN

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PEEHIP Health Care Challenges

Funding Retiree Health Care

People realize the need to save money for their retirement. For RSA members this includes a retirement benefit from the Teachers' Retirement System (TRS), Social Security and personal savings. However, in today's world the need to save for health care expenses in retirement is just as important. The amount you may need in retirement may surprise you. The Employee Benefit Research Institute noted that a couple both retiring at age 65 and living to average life expectancy could need as much as \$295,000 to pay for out-of-pocket medical costs, such as copayments, deductibles, prescription drugs and premiums. If you retire before you are eligible for Medicare, you will need even more.

To help our members prepare for these health care expenses in retirement, the RSA and the PEEHIP Board of Control have decided to take a proactive approach in funding retiree health care. Because there is no "magic pill" to cure the ever increasing health care costs and with so many unknowns, it is impossible to predict what the "solution" will be. The alternative is to do nothing and pass the buck, but this will only make changes much tougher in the future. To this end, the

PEEHIP Board has formed a committee to study various options in dealing with this issue. One possibility is the creation of a trust fund through constitutional amendment to help offset the unfunded liability of retiree health care coverage. Whatever option is taken, PEEHIP will still offer the best possible health care benefits available at affordable levels. However, it is going to take a combined effort by the RSA, the PEEHIP Board, the State Legislature, and PEEHIP members working together to ensure that we will be able to sustain our health care program for current and future retirees.

The RSA believes it is critical for active and retired education employees to realize that they play an important role in dealing with this health care issue because it will take their strong support for the RSA to do anything about it. In a series of articles, the RSA will explain why changes need to be made and what steps are necessary to accomplish these changes. Everyone involved will have to start taking responsibility for ensuring affordable health care coverage in the future.

STEP THERAPY PROGRAM

The Right Medicine at the Right Cost

One way for PEEHIP members to assist in meeting the challenges of providing quality health care at reasonable costs is by participating in PEEHIP's Step Therapy Program. Already, many PEEHIP members have taken advantage of this program and the results have saved millions of dollars. PEEHIP designed this program exclusively for PEEHIP members who have certain conditions—arthritis, high blood pressure, and high cholesterol—that require them to take medications regularly. On page 3 you will find an article that illustrates the savings of using Step Therapy on cholesterol-lowering medications. By using Step Therapy, you will receive a tried-and-true medication that's proven safe and effective for your condition, while getting it at the lowest possible cost.

For PEEHIP members unfamiliar with Step Therapy, the following information explains the basics of the Step Therapy program.

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Retiree Health Care: Q & A

Why is it so important that PEEHIP make changes now to the way retiree health care is funded when it was never done in the past?

Beginning with the 2006-2007 fiscal year, the Governmental Accounting Standards Board (GASB), specifically GASB Statement 45, will require accounting and financial reporting for Other Post-Employment Benefits (OPEB). GASB is an independent nonprofit organization that establishes accounting standards for public agencies. OPEBs are benefits other than pension benefits and include benefits such as your PEEHIP medical, prescription drug, and optional coverages.

The purpose of GASB Statement 45 is to report health care liability the same as pensions and recognize the cost over an employee's active years of service. This does not require PEEHIP to come up with the money right away, but it must disclose the present value of these future costs and estimate how much money is required to pay the benefits.

Is the GASB OPEB standard to report these liabilities a requirement?

The GASB OPEB standard is an accounting requirement, **not** a funding requirement. The standard does show however that retiree health care costs have escalated rapidly in the last five years, which is forcing health care administrators to recognize the issue and generate some solutions.

Now that the RSA is required to report this liability, how much of a liability is it?

The total accrued liability for PEEHIP is \$14.6 billion. If you include the State Employee's Insurance Board (SEIB) liability the estimated unfunded health care cost to the state is almost \$20 billion. On an annual basis, PEEHIP will need an additional contribution of \$880 million for retiree coverage alone. Add to this the current funding for both active members and retirees of \$800 million for a total annual funding required of \$1.68 billion. As you can see, this will have a significant impact on retiree health care sponsorship, design, and funding.

Even without OPEB, the cost to the state for health care coverage is rapidly increasing. The estimated cost to the state for the 2006-2007 fiscal year for active and retiree health care coverage is \$800 million. This represents an increase of 57% since 2003 and 114% since 2000.

How is the funding of retiree health care costs different from funding retiree pension benefits?

Your pension benefits are prefunded; meaning that on your retirement date, the money to pay for your retirement benefits is already in place. State law guarantees your retirement benefits. These pension benefit funds are generated from your contributions to the TRS, your employer's contributions over the same period, with the largest portion coming from RSA's investment earnings. Retiree health care costs, on the other hand, are funded annually by the State Legislature on a pay-as-you-go basis. They are not guaranteed by law.

With this amount of liability, will PEEHIP remain solvent?

If nothing is done, PEEHIP will suffer greatly as well as the state's bond ratings. The key is to take action, which is what the RSA and the PEEHIP Board want to do. A committee has been formed to study the options available to fund retiree health care. This will require your help as well to ensure PEEHIP remains a viable health care plan.

Is this just a problem for PEEHIP and if not, what are other states doing to combat this problem?

This is not unique to PEEHIP. It is a nationwide problem not only for public health care plans but for private plans as well. The trend on the private side is to not offer retiree health care at all. The state of California leads the way with an estimated unfunded liability of \$70 billion while New York State is at \$54 billion and Alabama is almost \$20 billion.

The only other state public pension plans taking a proactive approach are the State Teachers Retirement System of Ohio and the Ohio Public Employees Retirement System. They have already established funds as well as increased the employer and employee contributions for retiree health care.

On a national level, no one in Washington is talking about the escalating costs of health care and what to do about it. With no ideas on the table, the possibility of any significant changes coming soon that will benefit PEEHIP's current and future retirees is not likely.

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PEEHIP AND MEMBER SAVINGS ON CHOLESTEROL-LOWERING MEDICATIONS

During 2006, PEEHIP members have been saving money by using generics and formulary brands with lower copays. Utilization of generics has increased 30% and utilization of formulary brands has increased 9%. Use of Lipitor, a non-formulary brand, decreased by almost 19%. By the end of 2006, PEEHIP members will save about \$426,943 in copays because of the lower copays associated with generics and formulary brands. PEEHIP will save about \$979,774 because of increased use of less expensive cholesterol-lowering medications. Together, PEEHIP and its members will save about \$1.4 million dollars on cholesterol-lowering medications in 2006.

Wellness Flu Shot Sites

As part of the State Employees' and Public Education Employees' Wellness Programs, influenza vaccinations will be provided in the Fall of 2006. Employees, retirees, and adult dependents (18 years and older) covered under any of the health plans provided by the State Employees' Insurance Board or the Public Education Employees' Health Insurance Board are eligible to receive a flu shot at no charge.

For a complete list of flu clinic dates and locations, visit the Alabama Department of Public Health's Web site at www.adph.org. For further information regarding flu shot locations in your county, please reference the County Wellness Contacts List. You can also reach the schedule from the What's New page on our Web site at www.rsa.state.al.us.

Weight Watchers

All high risk active, retired and dependent members who are covered by PEEHIP are eligible for Weight Watchers. High Risk is based on having a body mass index (BMI) of 30 or greater. Funding is available to 5,000 high risk participants. Over 1,000 PEEHIP members are already participating. The cost to the member is \$85 with the remaining \$85 paid by PEEHIP if the member attends 12 of 15 meetings.

For more information visit the www.adph.org web site or contact Ms. Dyer at 334-206-5613.

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Why are health care costs increasing so much lately?

There are basically three reasons for the escalation in health care costs. The first is all the new drugs, drug therapies and medical procedures that have become available in just the past few years. Health care professionals are managing medical problems that were once incurable, but at a financial cost to us all. The second involves utilization by the consumer. More tests are run and more drugs are prescribed. This leads drug companies to develop and market new drugs which inevitably add to the cost. The third reason is that people are living longer and as people age, health spending increases. While PEEHIP is constantly looking at how to cut costs and still provide a high quality of benefits to its members, the new technologies and medicines that allow us to live longer come at a high cost.

What is PEEHIP planning to do to fund retiree health care?

PEEHIP has already been successful in cutting millions of dollars in costs, especially in the area of prescription drugs. These changes were implemented after the Special Session in 2005. The PEEHIP Board has formed a committee made up of the PEEHIP Board, RSA staff and the Finance Director. They are in the process of reviewing several options and will keep PEEHIP members well informed of its progress. The next step will be to present a bill to the State Legislature in the Regular Session in early 2007.

HELPFUL INFORMATION ON EXPRESS SCRIPTS WEB SITE

PEEHIP members enrolled in the PEEHIP hospital medical plan can obtain helpful information pertaining to the prescription benefit on the Express Scripts website.

Get more from your prescription benefit. Register today at www.express-scripts.com to access savings, convenience, and service online.

- See what you will pay for a specific drug.
- Discover ways to save.
- Order refills and track the status of your order.
- Locate participating retail pharmacies near you.
- Check your benefit coverage.
- Verify coverage for eligible dependents.

Get the information you need when you need it
Express-Scripts.com provides 24-hour online access to information regarding your prescription benefit. Visit the Web site today to:

- Find out about your copay amounts
- Verify coverage for eligible dependents
- View and print a list of drugs included in your formulary
- Locate participating retail pharmacies near you
- Review your 12-month prescription history

Register now to access Express-Scripts.com

Accessing your prescription benefit online is quick and easy; just go to www.express-scripts.com and complete our brief registration process to get started. You will have the information you need about your prescription benefit right at your fingertips.

Visit Express-Scripts.com today and start making the most of your prescription benefit.

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What is Step Therapy?

In Step Therapy, drugs are grouped in categories, based on cost:

- **Generic drugs**— the first step — have proven safe, effective and affordable. These drugs should be tried first because they can provide the same health benefit as more expensive drugs, at a lower cost.
- **Brand name drugs** — Step 2 and Step 3 drugs — are drugs such as those you see advertised on TV. There are lower-cost brand drugs (Step 2) and higher-cost brand drugs (Step 3). Brand name drugs typically cost more than generic drugs.

How It Works

The next time your doctor writes you a prescription:

- Ask your doctor if a generic medication—listed by your plan as a first-step drug—is right for you.
- If you have already tried a generic drug, or your doctor decides one of these drugs is not appropriate for you, then your doctor can prescribe a brand name drug. Ask your doctor if one of the lower-cost brands (Step 2 drugs) listed by your plan is appropriate.
- You can always get a higher-cost brand name drug at a higher copayment if the generic or Step 2 brand name drugs are not right for you.

Talk With Your Doctor

Only your doctor can advise you about the drugs you take, so talk with your doctor about your medications. Give your doctor a copy of the generic drugs covered under your plan and ask if one is right for you.

Step Therapy Helps You Get the Most Out of Your Prescription-Drug Benefit

For more information on how Step Therapy works and how it benefits you, go to www.express-scripts.com and the PEEHIP Web site at www.rsa.state.al.us. You may also review previous PEEHIP newsletters at our Web site.

A generic medication will cost, on average, between 30% and 80% less than the equivalent brand name drug. PEEHIP monthly copays are \$5 for generics, \$30 for preferred brands, and \$50 for non-preferred brands. Step Therapy will ensure that you receive the least expensive medication that is right for you.

Consult your physician and pharmacist and start saving yourself and PEEHIP money by switching to generic drugs from brand named drugs.